

## Message Text

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ACTION IO-14

INFO OCT-01 EPG-02 AGRE-00 USIA-06 AID-05 EB-07 AF-10  
ARA-10 EA-07 EUR-12 NEA-10 COME-00 ISO-00 TRSE-00  
L-03 OMB-01 ABF-01 /089 W  
-----026257 011732Z /47

R 011516Z JUL 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 5625

C O N F I D E N T I A L SECTION 1 OF 2 ROME 10824

FODAG

E.O. 11652: GDS  
TAGS: OCON, FAO, USUN  
SUBJECT: BUDGETARY ISSUES BEFORE 18TH FAO CONFERENCE IN  
NOVEMBER 1977

REF: (A) ROME 9653 (B) ROME 10009 (C) ROME 10036 (D) ROME 9695

SUMMARY: THE 71ST FAO COUNCIL HAS PASSED ON TO THE 18TH FAO  
CONFERENCE IN NOVEMBER A NUMBER OF KEY ISSUES RELATING TO THE  
FAO BUDGET ON WHICH THE UNITED STATES IS A MINORITY AND FOR WHICH  
THE UNITED STATES SHOULD START PREPARING NOW. THIS MESSAGE  
OUTLINES THESE ISSUES AND SUGGESTS RECOMMENDATIONS. THE ISSUES ARE  
FUNDING OF A SPECIAL FUND TO COMBAT POST-HARVEST LOSSES, FUNDING  
OF AN FAO RESERVE ACCOUNT TO MEET INFLATION AND EXCHANGE RATE  
CHANGES, AN EVALUATION OF THE FAO'S TECHNICAL CO-OPERATION  
PROGRAM, AND THE LEVEL OF THE FAO BUDGET. END SUMMARY

1. POST-HARVEST LOSSES: A MAJOR ASPECT OF THE DIRECTOR  
GENERAL'S NEW PROGRAM AND BUDGET FOR THE FAO IN 1978/79 IS HIS  
PLAN FOR FAO TO LEAD AND COORDINATE AN INTERNATIONAL EFFORT TO  
COMBAT POST-HARVEST LOSSES. THERE IS NO DOUBT ABOUT THE IMPORTANCE  
OF REDUCING THESE LOSSES AND THE UNITED STATES HAS BEEN A  
LEADER IN CALLING FOR INTERNATIONAL ACTION. WE HAVE GENERALLY  
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SUPPORTED THE FAO'S PROGRAM EXCEPT FOR THE DIRECTOR GENERAL'S  
IDEA OF FINANCING HIS ACTION PROGRAM THROUGH A \$20 MILLION TRUST  
FUND TO WHICH THE DIRECTOR GENERAL IS ASKING THE FAO  
CONFERENCE TO ALLOCATE \$10 MILLION FROM A SPECIAL RESERVE  
ACCOUNT MADE UP OF FOREIGN EXCHANGE GAINS IN 1976/77.  
FIGHTFULLY, WITHOUT CONFERENCE ACTION, THIS MONEY WOULD RETURN  
TO MEMBER STATES. FOR THE UNITED STATES, THIS IS \$2.5 MILLION,

BUT FOR THE MAJORITY OF FAO MEMBERS IT IS ONLY A LITTLE OVER \$1,000.

2. UNLESS THE U.S. CAN OFFER AN ALTERNATIVE PROPOSAL , THE FAO CONFERENCE WILL OVERWHELMINGLY APPROVE THE DIRECTOR GENERAL'S SUGGESTED TRANSFER. EVEN THEN, TO WIN ACCEPTANCE OF SUCH A PROPOSAL WE SHOULD APPROACH THE DIRECTOR GENERAL AT AN EARLY DATE AND CERTAINLY BEFORE THE FAO PROGRAM AND FINANCE COMMITTEES MEET IN SEPTEMBER.

3. RECOMMENDATION: FROM ROME AN ALTERNATIVE PROPOSAL WHICH MIGHT WIN APPROVAL SHOULD INCLUDE SOME OF THE FOLLOWING CARROTS AND STICKS: (A) A U.S. VOLUNTARY CONTRIBUTION TO THE FAO POST-HARVEST LOSS TRUST FUND OF OVER \$2.5 MILLION AND PREFERABLY CLOSE TO \$5 MILLION (THIS CONTRIBUTION COULD BE TO THE UNDP BUT EARMARKED FOR POST-HARVEST LOSSES WITH PROJECTS TO BE EXECUTED BY THE FAO); (B) BILATERAL TALKS WITH A FEW OTHER MAJOR DONORS SO WE CAN ASSURE THE DIRECTOR GENERAL THAT OTHERS WILL CONTRIBUTE IN A LIKE MANNER AND CONVERSELY IF FORCED TO CONTRIBUTE VIA THE FAO SUSPENSE ACCOUNT FURTHER CONTRIBUTIONS TO AN FAO SCHEME WOULD BE JEOPARDIZED; (C) A STOCK-TAKING OF U.S. AND UNDP EFFORTS IN POST-HARVEST LOSS PROJECTS AND A CLEAR INDICATION TO THE DIRECTOR GENERAL THAT WE WOULD LIKE TO COORDINATE OUR BILATERAL EFFORTS WITH THE FAO'S PROGRAM; (D) PREPARE FOR THE FAO A CLEAR STATEMENT OF THE PROBLEMS FACING THE UNITED STATES IF MONEY IS DIVERTED FROM ONE PURPOSE IN 1976/77 TO ANOTHER IN 1978/79; AND (E) WE  
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MIGHT ALSO CONSIDER THAT THE U.S. AND A GROUP OF OTHER MAJOR CONTRIBUTORS CAN REDUCE THE EXCHANGE RATE GAINS IN THE FAO SUSPENSE ACCOUNT BY WITHHOLDING IN VIOLATION OF DUTY THE REST OF OF OUR CONTRIBUTION IN 1977 AND THEN PAYING IN 1978 AFTER THE SPECIAL SUSPENSE ACCOUNT HAS BEEN CLOSED.

5. FAO RESERVE ACCOUNT: THE COUNCIL APPROVED A NEW RESERVE ACCOUNT WHICH WOULD GIVE THE FAO SOME PROTECTION FROM INFLATION AND FOREIGN EXCHANGE LOSSES. AGAIN THE DIRECTOR GENERAL PROPOSED TO FUND THIS RESERVE ACCOUNT OUT OF THE EXPECTED \$15 MILLION WINDFALL THE FAO RECEIVED IN THE LAST BIENNIUM DUE TO THE FALL IN THE LIRA FROM THE BUDGETED 670 TO THE PRESENT 885.

5. IN THE COUNCIL THE UNITED STATES RECOGNIZED THE FAO NEEDED SOME SORT OF RESERVE ACCOUNT, BUT OBJECTED TO THE METHOD OF FUNDING THIS ACCOUNT AND THE LOOSE LANGUAGE USED TO DESCRIBE WHEN THE FAO COULD USE THIS ACCOUNT AND FINALLY TO THE CONTINUATION OF THIS RESERVE FROM BIENNIUM TO BIENNIUM. THIS IS VERY IMPORTANT FOR THE INTEGRITY OF FUTURE FAO BUDGETS, BECAUSE UNDER THE PRESENT WORDING THE FAO CAN UNDERBUDGET AND THEN DIP INTO THIS RESERVE ACCOUNT TO MEET REAL COSTS. THIS MAY ALREADY BE TRUE IN THE 1978/79 BUDGET.

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INFO OCT-01 EPG-02 AGRE-00 USIA-06 AID-05 EB-07 AF-10  
ARA-10 EA-07 EUR-12 NEA-10 COME-00 ISO-00 TRSE-00  
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R 011516Z JUL 77  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 5626

C O N F I D E N T I A L SECTION 2 OF 2 ROME 10824

6. RECOMMENDATIONS: THE UNITED STATES SHOULD DRAFT AN ALTERNATIVE RESOLUTION BASED ON CURRENT ACCOUNTING PRACTICES ON SETTING UP A RESERVE ACCOUNT. THE UNITED STATES SHOULD ALSO MAKE CLEAR ITS INSISTENCE ON STRICT FINANCIAL ACCOUNTING IN THE SPECIALIZED AGENCIES, RECOMMENDING THAT THE FAO REGULAR BUDGET FOR 1978/79 BE INCREASED BY THE AMOUNT NECESSARY TO FUND A RESERVE ACCOUNT. FINALLY WE SHOULD, AFTER BILATERAL COORDINATION WITH A FEW MAJOR CONTRIBUTORS, PASS THIS ALTERNATIVE RESOLUTION TO THE DIRECTOR GENERAL INDICATING WE WOULD BE PROPOSING IT IN THE FAO CONFERENCE, BUT WOULD LIKE TO DISCUSS IT WITH THE DIRECTOR GENERAL FIRST. (THE ISSUE OF NOT USING THE FUNDS FROM THE OLS BUDGET'S SUSPENSE ACCOUNT IS COVERED BY THE SAME REASONING AS IN POST-HARVEST LOSSES.)

7. FAO TECHNICAL COOPERATION PROGRAM: THE FAO'S TCP WON PRAISE FROM NEARLY ALL THE COUNCIL MEMBERS AND THERE CAN BE NO DOUBT THAT IT WILL BE APPROVED BY THE FAO CONFERENCE AND BUDGETED \$20 MILLION PLUS A \$3 MILLION OR MORE CARRYOVER FROM 1976/77 SO THAT SPENDING WILL AVERAGE ABOUT \$1 MILLION A MONTH IN THE NEXT BIENNIUM. AFTER OUR NEGOTIATIONS WITH THE DIRECTOR GENERAL, HE AGREED TO EVALUATE THE TCP IN 1978 AND REPORT TO THE NEXT COUNCIL HOW HE WAS GOING TO EVALUATE THE TCP. THE ISSUE IS HOW INDEPENDENT AND IMPARTIAL AN EVALUATION WILL BE MADE. SINCE THE DIRECTOR GENERAL FEELS VERY POSSESSIVE ABOUT THE TCP, IT WILL BE HARD TO ORGANIZE AN INDEPENDENT EVALUATION.  
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8. RECOMMENDATION: THE UNITED STATES SHOULD IMMEDIATELY DECIDE ON WHAT IT CONSIDERS TO BE AN ADEQUATE, INDEPENDENT EVALUATION AND THEN DISCUSS SUCH AN EVALUATION PROCEDURE WITH THE DIRECTOR GENERAL. HE WILL WATER IT DOWN, BUT IT STILL WILL BE A MORE INDEPENDENT EVALUATION THEN IF WE WAIT TO HEAR HIS PROPOSALS. SINCE THE DIRECTOR GENERAL IS ARGUING THAT AN INDEPENDENT EVALUATION WOULD IMPINGE ON RECIPIENT COUNTRIES' SOVEREIGNTY, WE MIGHT PROPOSE THE FAO DO THE ACTUAL EVALUATION BASED ON ADVICE FROM A SMALL PANEL OF EXPERTS FROM MEMBER STATES CHAIRED BY A NAMED UN EXPERT. THIS EXPERT PANEL COULD MEET ONCE TO TELL THE FAO WHAT IT WANTED , AGAIN TO REVIEW THE WORK TO DATE AND REQUEST GAPS TO BE FILLED AND A THIRD TIME TO FINALIZE THE REPORT TO THE DIRECTOR GENERAL FOR THE AQOUI COUNCIL CONSIDERATION. IT IS IMPORTANT TO ESTABLISH A FORMAL, INDEPENDENT EVALUATION BUT, IN THE END, WE AND OTHER GENEVA GROUP COUNTRIES WILL HAVE TO MAKE OUR OWN EVALUATION.

9. FAO BUDGET LEVEL. THE FAO COUNCIL HAS ENDORSED THE \$206 MILLION LEVEL FOR THE FAO'S 1978/79 BUDGET. THE U.S. RESERVED UNTIL IT HAS A CHANCE TO REVIEW THE FINAL BUDGET DOCUMENT. THE MAIN ISSUE HERE IS THE INCREASE THAT COULD OCCUR IN THIS \$206 MILLION IF EITHER OR BOTH THE POST-HARVEST LOSS PROGRAM OR THE RESERVE ACCOUNT WERE FUNDED FROM THE REGULAR BUDGET.

10. THE ABOVE RECOMMENDATIONS ARE BEING MADE IN THE LIGHT OF THE DIFFICULT SITUATION WE ARE IN IN THE FAO WITH THE GROUP OF 77 GENERALLY UNITED AND UNDER THE CONTROL, SO FAR, OF THE DIRECTOR GENERAL. AT THE LAST COUNCIL, THE U.S. WAS NOT NEGOTIATING ON THE ABOVE ISSUES WITH THE OTHER MEMBERS SO MUCH AS WITH THE DIRECTOR GENERAL. IN THIS SITUATION WE CANNOT EXPECT TO CONVINCE A MAJORITY TO SUPPORT OUR POSITION UNLESS WE HAVE WORKED IT OUT WITH THE DIRECTOR GENERAL WELL IN ADVANCE AND CONFIDENTIAL

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DISCUSSED IT WITH SOME OTHER COUNTRIES. THEREFORE IT IS CRUCIAL TO HAVE ADVANCED U.S. POLICIES WHICH WE CAN DISCUSS WITH THE DIRECTOR GENERAL. HIS FIRST REACTION CAN BE EXPECTED TO BE HOSTILE; BUT THEN, IF THERE IS TIME AND ROOM FOR HIM TO MANEUVER, HE MAY MOVE SOMEWHAT IN OUR DIRECTION.GARDNER

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009